



## THE AUSTRALIAN - ETS SHOULDN'T BE ONLY GAME IN TOWN

Opinion Piece by ACCI Economics and Industry Policy Director Greg Evans published in "The Australian" - 20 October 2009 - "Emissions Trading Scheme Should Not Be the Only Game in Town"

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Less disruptive alternatives to emissions trading deserve to be debated, points out **Greg Evans**

It is disappointing that the national debate in Australia on how to reduce greenhouse gas emissions has become polarised and singularly focused on the proposal for an emissions trading scheme.

Leaving aside the debate about the science of climate change and those who have in good faith expressed concern about the need for a policy response, the mainstream view is that global action is required and this should be backed by nominating medium-term reduction targets.

From the perspective of business it would be helpful if that consensus was built on and not eroded. After attending a meeting of business organisations from the world's largest economies in Washington late last month, it is apparent Australia is well advanced in policy development and, contrary to the view put by environmental groups, we are in no sense an international straggler.

At the gathering, which was convened by the US Chamber of Commerce, there was also recognition that Australia as an energy exporter and significant energy user has more skin in the game than most. Among counterpart business organisations there was an appreciation that our response needs to be carefully considered, to ensure we don't unilaterally damage our economic position or threaten our role in providing energy security for many other countries.

It was also clear that other governments are considering a range of mechanisms to achieve reduction targets, including emission trading schemes, carbon taxes, focusing on energy efficiency and technology adoption, seeking sectoral improvements in a range of industries, and assisting developing countries in dealing with deforestation and forest degradation.

Across both advanced and developing countries the range of possible options is far from concluded, and this won't happen until well after Copenhagen. The domestic debate and commentary about our ETS and its urgency would suggest this is the only internationally acceptable and effective policy approach.

This is not the case.

It is a fair assessment that compared with other proposals the ETS is highly complex and not well understood, other than by policy insiders and the large emitters who by necessity have had to measure its likely impact on their viability.

Energy users, including most business and private consumers, have little appreciation of either how it works or its impact on electricity and gas prices. Concern remains that it may impose a new layer of costs without encouraging favourable behavioural changes.

Nevertheless, advocates of the ETS argue it has many apparent benefits, principally that it is a market-based approach. Yet it relies on mandated regulatory structures such as the setting of an emissions cap by government, and is accompanied by other market interventions such as the renewable energy target.

Notwithstanding the extensive work of the government in relation to the Carbon Pollution Reduction Scheme Bill before parliament, there are other options, or perhaps a combination of approaches, that can be used to reduce overall emissions.

Following Copenhagen, when a clearer international picture hopefully emerges, these may need to be considered to help reach a domestic consensus.

Unfortunately, Australia never really had a proper debate about what mechanism to use to mitigate emissions. In 2007 the former government, in its haste to play catch-up, dusted off and enhanced much earlier work by the Australian Greenhouse Office on the ETS design. There seemed to be no room to consider alternative options, including a carbon tax with all its strengths and weaknesses. This was a pity as the full weight of Treasury analysis should have been applied to find the best option for Australia.

Our preoccupation with the process has distracted us from having a proper debate about energy policy and the role changes in the fuel mix and technology may be able to play in reducing our greenhouse gas intensity.

For example, as part of the answer, reform in the generating sector with the impetus of mandated efficiency benchmarks could be a starting point.

Objectives may include the gradual replacement of older, less efficient coal-fired power stations with more efficient supercritical technology, greater uptake of combined-cycle gas-fired generation, encouraging industry use of cogeneration and adoption of other distributed energy options such as micro-turbines.

These initiatives may be less visible and intrusive than an economy-wide ETS and they will come with an adjustment cost, as energy will be more expensive. Yet directly dealing with the problem of emissions in this way is not out of step with other international approaches.

However, with a phased transition they would more readily receive community endorsement and impose less economic dislocation.

Further, they can provide a bridge to technologies including carbon capture and storage, which is at least 15 years away, and the eventual use of nuclear power to assist our base-load requirements. One thing that's certain is that no matter which way you cut it, coal is here to stay.

While renewables will be part of the suite of energy options, the joint constraints of physics and economics will mean they are never more than a minor contributor in our energy mix.

Our economy, industrial development and wealth have been built on the bedrock of accessible, secure and competitively priced energy. Whatever measure we adopt to reduce emissions, we must ensure we do not forgo that advantage.

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